

*See Summary  
Comparisons*

## Projected Income from OPM Retirement Plan

The Office of Personnel Management (OPM) has proposed a defined contribution plan for Federal employees covered by social security. The following tables illustrate the income that would be produced under the proposal for an employee entering the plan in 1985. Benefits are compared to the current retirement system. The projection is based on the following set of economic assumptions:

Investment income - 10% in 1985 dropping to 6% a year after 1992.

General Schedule increase - None until 1987 and then 5.5% a year.

Career salary growth - Appropriated career patterns leading to the final grade shown.

Inflation - 4% a year.

The comparisons only show the effect of the proposed defined contribution employer payment. Inclusion of the \$5,000 employee IRA would be misleading because the income would be generated by employee contributions substantially in excess of the current system.

The comparison of results between a defined contribution and defined benefit system are strongly influenced by the economic assumptions. In particular, the illustration of replacement income will be influenced by the difference between inflation or salary growth and the rate of investment return. In the example, a real investment return (investment return less inflation) of 2% a year was chosen. A higher real rate of return would show more favorable benefits under the proposed system and vice-versa. However, differential of around 2% is considered reasonable under generally accepted economic assumptions.

The tables illustrate the income at retirement for employees who fully participate in the plan each year. While the tables provide a quick overview of the effect on typical careers, the following points must be considered for a full understanding of the effect of the system:

The relative difference between the disability income and provisions of the two plans.

The difference between survivor benefits for deaths before and after retirement.

The lack of credit for military service and unused sick leave in the new plan.

The higher income in the new plan to employees terminating before immediate benefit eligibility. ✓

Hay/Huggins Company, Inc.

Edwin C. Husted

Table 1

Comparison of Benefits from Administration Plan and CSRS  
 Employee Entering in 1985 and Retiring at age 55 with 30 Years Service  
 Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$5,876	\$8,085	\$14,085	\$15,834
Social security at 62	\$4,894	\$5,282	\$5,810	\$5,810
Total benefits				
At retirement	\$5,876	\$8,085	\$14,085	\$15,834
At age 62	\$9,359	\$11,426	\$16,514	\$17,842
At age 80	\$7,098	\$8,315	\$11,094	\$11,749
Benefit from CSRS				
At retirement	\$14,233	\$18,001	\$34,407	\$36,673
At age 62	\$14,233	\$18,001	\$34,407	\$36,673
At age 80	\$14,233	\$18,001	\$34,407	\$36,673

Note: The proposed plan provides an annual contribution of 11.6% of pay ✓  
 The illustration is based on the assumption in the text.  
 Benefits for proposed plan are shown at age 55 although the plan  
 might not permit payments until age 59.

Table 2

## Comparison of Benefits from Administration Plan and CSRS

Employee Entering in 1985 and Retiring at age 65 with 40 Years Service  
 Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$28,342	\$34,299	\$67,939	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$9,548	\$12,707	\$22,922	\$25,042
Social security	\$7,151	\$8,057	\$8,613	\$8,613
Total benefits				
At retirement	\$16,698	\$20,764	\$31,535	\$33,655
At age 80	\$12,452	\$15,113	\$21,341	\$22,518
Benefit from CSRS				
At retirement	\$20,509	\$24,819	\$49,162	\$49,712
At age 80	\$20,509	\$24,819	\$49,162	\$49,712

Note: The proposed plan provides an annual contribution of 11.6% of pay  
 The illustration is based on the assumption in the text.

Table 3

## Comparison of Benefits from Administration Plan and CSRS

Employee Entering in 1985 and Retiring at age 62 with 20 Years Service

Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$23,983	\$30,780	\$59,230	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$3,676	\$5,340	\$8,759	\$9,228
Social security	\$3,238	\$3,694	\$4,455	\$4,455
Total benefits				
At retirement	\$6,914	\$9,034	\$13,214	\$13,683
At age 80	\$5,052	\$6,330	\$8,779	\$9,010
Benefit from CSRS				
At retirement	\$8,172	\$10,589	\$19,989	\$23,634
At age 80	\$8,172	\$10,589	\$19,989	\$23,634

Note: The proposed plan provides an annual contribution of 11.6% of pay  
The illustration is based on the assumption in the text.

Table 4

Comparison of Benefits from Administration Plan and CIARDS  
 Employee Entering in 1985 and Retiring at Age 55 with 30 Years Service  
 Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$5,876	\$8,085	\$14,085	\$15,834
Social security	\$4,894	\$5,282	\$5,810	\$5,810
Total benefits				
At retirement	\$10,770	\$13,367	\$19,895	\$21,644
At age 62	\$9,359	\$11,426	\$16,514	\$17,842
At age 80	\$7,098	\$8,315	\$11,094	\$11,749
Benefit from CIARDS				
At retirement	\$15,182	\$19,201	\$36,701	\$39,118
At age 62	\$15,182	\$19,201	\$36,701	\$39,118
At age 80	\$15,182	\$19,201	\$36,701	\$39,118

Note: The proposed plan provides an annual contribution of 11.6% of pay.  
 The illustration is based on the assumptions in the text.

Table 5

Comparison of Benefits from Administration Plan and CIARDS  
Employee Entering in 1985 and Retiring at Age 50 with 25 Years Service  
Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$25,436	\$32,539	\$62,714	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$4,236	\$5,955	\$10,138	\$10,877
Social security	\$3,917	\$4,328	\$4,990	\$4,990
Total benefits				
At retirement	\$8,153	\$10,283	\$15,128	\$15,866
At age 62	\$6,563	\$8,047	\$11,322	\$11,783
At age 80	\$5,223	\$6,164	\$8,115	\$8,343
Benefit from CIARDS				
At retirement	\$12,069	\$15,310	\$29,225	\$32,598
At age 62	\$12,069	\$15,310	\$29,225	\$32,598
At age 80	\$12,069	\$15,310	\$29,225	\$32,598

Note: The proposed plan provides an annual contribution of 11.6% of pay.  
The illustration is based on the assumptions in the text.

Table 6

Comparison of Benefits from Administration Plan and CIARDS  
 Employee Entering in 1985 and Retiring at Age 60 with 30 Years Service  
 Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$6,370	\$8,765	\$15,269	\$17,164
Social security	\$5,243	\$5,659	\$6,225	\$6,225
Total benefits				
At retirement	\$11,613	\$14,424	\$21,494	\$23,389
At age 62	\$11,133	\$13,763	\$20,342	\$22,094
At age 80	\$8,151	\$9,659	\$13,194	\$14,059
Benefit from CIARDS				
At retirement	\$15,182	\$19,201	\$36,701	\$39,118
At age 62	\$15,182	\$19,201	\$36,701	\$39,118
At age 80	\$15,182	\$19,201	\$36,701	\$39,118

Note: The proposed plan provides an annual contribution of 11.6% of pay.  
 The illustration is based on the assumptions in the text.

Table 4

Comparison of Benefits from Administration Plan and CIARDS  
 Employee Entering in 1985 and Retiring at Age 55 with 30 Years Service  
 Calculated in terms of Retirement Year Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary	\$127,028	\$162,032	\$304,497	\$342,397
Benefit from proposed plan:				
Defined contribution plan	\$27,760	\$38,197	\$66,542	\$74,801
Social security	\$23,119	\$24,953	\$27,447	\$27,447
Total benefits				
At retirement	\$50,879	\$63,150	\$93,989	\$102,248
At age 62	\$58,183	\$71,033	\$102,661	\$110,920
At age 80	\$89,392	\$104,718	\$139,712	\$147,971
Benefit from CIARDS				
At retirement	\$71,720	\$90,707	\$173,383	\$184,799
At age 62	\$94,379	\$119,364	\$228,160	\$243,183
At age 80	\$191,194	\$241,809	\$462,210	\$492,643

Note: The proposed plan provides an annual contribution of 11.6% of pay.  
 The illustration is based on the assumptions in the text.



Table 5

Comparison of Benefits from Administration Plan and CIARDS  
 Employee Entering in 1985 and Retiring at Age 50 with 25 Years Service  
 Calculated in terms of Retirement Year Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary	\$91,941	\$117,616	\$226,685	\$248,322
Benefit from proposed plan:				
Defined contribution plan	\$15,310	\$21,526	\$36,645	\$39,315
Social security	\$14,159	\$15,643	\$18,035	\$18,035
Total benefits				
At retirement	\$29,469	\$37,168	\$54,680	\$57,350
At age 62	\$37,979	\$46,570	\$65,520	\$68,190
At age 80	\$61,233	\$72,262	\$95,141	\$97,811
Benefit from CIARDS				
At retirement	\$43,626	\$55,338	\$105,636	\$117,829
At age 62	\$69,847	\$88,598	\$169,126	\$188,649
At age 80	\$141,496	\$179,483	\$342,619	\$382,167

Note: The proposed plan provides an annual contribution of 11.6% of pay.  
 The illustration is based on the assumptions in the text.

Table 6

Comparison of Benefits from Administration Plan and CIARDS  
Employee Entering in 1985 and Retiring at Age 60 with 30 Years Service

Calculated in terms of ~~1985~~ Salary Scale

*Retirement YEAR*

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary	\$127,028	\$162,032	\$304,497	\$342,397
Benefit from proposed plan:				
Defined contribution plan	\$30,093	\$41,406	\$72,133	\$81,087
Social security	\$24,770	\$26,736	\$29,408	\$29,408
Total benefits				
At retirement	\$54,863	\$68,142	\$101,541	\$110,495
At age 62	\$56,884	\$70,324	\$103,941	\$112,894
At age 80	\$84,368	\$99,987	\$136,570	\$145,523
Benefit from CIARDS				
At retirement	\$71,720	\$90,707	\$173,383	\$184,799
At age 62	\$77,572	\$98,108	\$187,531	\$199,878
At age 80	\$157,147	\$198,749	\$379,903	\$404,917

Note: The proposed plan provides an annual contribution of 11.6% of pay.  
The illustration is based on the assumptions in the text.